

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2004

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,026,969	\$ -	\$ -	\$ 11,120	\$ 2,038,089
Investments	66,551,316	17,722,406	47,249,952	33,384,998	164,908,672
Receivables	59,645,121	4,775,539	84,326	5,613,654	70,118,640
Due from other funds	-	3,129,050	800,000	-	3,929,050
Stores inventories	540,758	-	-	104,601	645,359
Total assets	<u>\$128,764,164</u>	<u>\$ 25,626,995</u>	<u>\$ 48,134,278</u>	<u>\$ 39,114,373</u>	<u>\$241,639,810</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Overdrafts	\$ -	\$ -	\$ -	\$ 5,703,129	\$ 5,703,129
Accounts payable	10,791,270	25,529,989	3,655,838	3,746,080	43,723,177
Due to other funds	3,129,050	-	10,000,000	800,000	13,929,050
Other current liabilities	76,504,110	-	-	-	76,504,110
Deferred revenue	17,701,043	97,006	1,500,000	19,018,120	38,316,169
Total liabilities	<u>108,125,473</u>	<u>25,626,995</u>	<u>15,155,838</u>	<u>29,267,329</u>	<u>178,175,635</u>
Fund Balances:					
Reserved for:					
Restricted programs	17,123,739	-	-	-	17,123,739
Other reservations	541,258	-	-	108,601	649,859
Unreserved:					
Designated	10,324,000	-	-	-	10,324,000
Undesignated, reported in:					
General fund (See note 3)	(7,350,306)	-	-	-	(7,350,306)
Special revenue funds	-	-	-	5,839,539	5,839,539
Debt service funds	-	-	-	38,604	38,604
Capital projects funds	-	-	32,978,440	3,860,300	36,838,740
Total fund balance	<u>20,638,691</u>	<u>-</u>	<u>32,978,440</u>	<u>9,847,044</u>	<u>63,464,175</u>
Total liabilities and fund balances	<u>\$128,764,164</u>	<u>\$ 25,626,995</u>	<u>\$ 48,134,278</u>	<u>\$ 39,114,373</u>	<u>\$241,639,810</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2004

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - governmental funds		\$ 63,464,175
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 512,307,096	
Accumulated depreciation is	<u>(101,135,728)</u>	
		411,171,368
In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as receivable and payment received in the current year reduces the receivable amount.		1,756,381
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(1,341,610)
An internal service fund is used by the District's management to charge the costs of the worker's compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		(10,012,969)
Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.		
Long-term liabilities at year end consist of:		
Certificates of participation	18,885,000	
Capital leases payable	32,014,162	
State school building loan payable	285,203	
Compensated absences (vacations)	6,317,707	
Excess revenue limit transfers	<u>10,051,477</u>	
		(67,553,549)
Total net assets-governmental activities		<u>\$ 397,483,796</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	General Fund	County School Service Fund	Building Fund	Nonmajor Government Funds	Total Government Funds
REVENUES					
Revenue limit sources	\$ 263,341,371	\$ 13,658,710	\$ -	\$ -	\$ 277,000,081
Federal sources	41,053,216	12,352,184	-	29,838,217	83,243,617
Other state sources	97,753,465	41,346,678	-	16,663,524	155,763,667
Other local sources	62,678,405	36,177,991	8,435,834	8,870,558	116,162,788
Total Revenues	464,826,457	103,535,563	8,435,834	55,372,299	632,170,153
EXPENDITURES					
Current					
Instruction	212,627,812	68,433,439	-	22,219,716	303,280,967
Instruction related activities:					
Supervision of instruction	39,060,628	3,460,962	-	283,950	42,805,540
Instructional library and technology	2,766,199	-	-	-	2,766,199
School site administration	29,899,149	1,222,696	-	3,416,630	34,538,475
Pupil Services:					
Home-to school transportation	9,090,077	11,052,236	-	-	20,142,313
Food services	62,812	-	-	16,578,417	16,641,229
All other pupil services	19,285,965	13,844,532	-	308,186	33,438,683
General administration:					
Data processing	6,851,870	-	-	-	6,851,870
All other general administration	49,846,443	1,825,137	-	6,200,110	57,871,690
Plant services	39,654,997	-	-	2,810,498	42,465,495
Facility acquisition and construction	4,462,575	-	13,980,320	11,655,133	30,098,028
Ancillary services	1,786,951	79,797	-	-	1,866,748
Community services	14,568	-	-	-	14,568
Other (outgo)	45,235,854	-	-	2,287,907	47,523,761
Debt service					
Principal	219,813	-	-	3,402,098	3,621,911
Interest and other	1,512,220	-	-	2,772,052	4,284,272
Total Expenditures	462,377,933	99,918,799	13,980,320	71,934,697	648,211,749
Excess (deficiency) of revenues over expenditures	2,448,524	3,616,764	(5,544,486)	(16,562,398)	(16,041,596)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	991,551	-	10,874,477	11,866,028
Other sources	-	-	36,858,532	-	36,858,532
Transfers out	(11,866,028)	-	-	-	(11,866,028)
Other uses	-	(4,999,186)	-	-	(4,999,186)
Net Financing Sources (Uses)	(11,866,028)	(4,007,635)	36,858,532	10,874,477	31,859,346
NET CHANGE IN FUND BALANCES	(9,417,504)	(390,871)	31,314,046	(5,687,921)	15,817,750
Fund Balance - Beginning	31,943,536	-	864,394	18,323,499	51,131,429
Prior Period Adjustments	(1,887,341)	390,871	800,000	(2,788,534)	(3,485,004)
Fund Balance - Ending	\$ 20,638,691	\$ -	\$ 32,978,440	\$ 9,847,044	\$ 63,464,175

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Total net change in fund balances - governmental funds		\$ 15,817,750
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities those costs are capitalized in the statement of net assets as property and equipment and this cost is allocated over the estimated useful life of the asset as depreciation expense in the statement of activities. This is the amount by which capitalized capital outlays exceed depreciation in the current		
Capitalized capital outlays	\$ 24,368,521	
Depreciation expense	<u>(14,473,938)</u>	9,894,583
Repayment of Capital Leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		1,029,573
In the statement of activities, certain operating expenses - compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$1,002,679		(1,002,679)
Repayment of Certificates of Participation principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		2,420,000
Repayment of State School Building Loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		158,158
In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as receivable and payment received in the current year reduces the receivable amount.		1,756,381
The excess revenue limit received during the year was recorded as revenue in the governmental funds, but was negotiated with state to pay back in installment starting fiscal year 2005-2006.		(10,051,477)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid. The additional interest expense reported in the statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds is the result of this difference.		50,257
An internal service fund is used by the District's management to charge the costs of the employment insurance program to the individual funds. The net loss of the internal service fund is not reported in the governmental funds, but is reported in the statement of activities.		<u>(10,012,969)</u>
Increase in net assets of governmental activities		<u>\$ 10,059,577</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities: Internal Service Fund
	<u> </u>
ASSETS	
Current assets:	
Cash	\$ 998,657
Investments	9,776,203
Receivables	27,914
Due from other funds	10,000,000
Total current assets	<u> 20,802,774</u>
LIABILITIES	
Current liabilities:	
Accounts payable	137,743
Claim liability	30,678,000
Total current liabilities	<u> 30,815,743</u>
NET ASSETS	<u> \$ (10,012,969)</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

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	Governmental Activities: Internal Service Fund
Operating revenues:	
Interfund premiums	\$ 13,600,804
Total operating revenues	<u>13,600,804</u>
Operating expenses:	
Insurance claims and other	23,925,715
Total operating expenses	<u>23,925,715</u>
Operating loss	(10,324,911)
Nonoperating revenues:	
Interest income	311,942
Net assets - End of year	<u>\$ (10,012,969)</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

	Governmental Activities: Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 3,742,429
Cash payments for insurance claims	(13,787,080)
Cash payments to suppliers for goods and services	(3,949)
Net cash used in operating activities	<u>(10,048,600)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>384,736</u>
Net decrease in cash and cash equivalents	(9,663,864)
Cash and cash equivalents - Beginning of year	20,438,724
Cash and cash equivalents - End of year	<u>\$ 10,774,860</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating income	\$ (10,324,911)
Decrease in receivables	141,625
Increase in due from other fund	(10,000,000)
Decrease in accrued liabilities	10,134,686
Net cash used in operating activities	<u>\$ (10,048,600)</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

	<u>Payroll Trust</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 1,543,779
Investments	8,209,265	-
Receivables	103,642	-
Total assets	<u>\$ 8,312,907</u>	<u>\$ 1,543,779</u>
LIABILITIES		
Salaries payable	\$ 8,312,907	\$ -
Due to student groups	-	1,543,779
Total liabilities	<u>\$ 8,312,907</u>	<u>\$ 1,543,779</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The San Francisco Unified School District (The District) was established as the San Francisco School System in 1851 under the laws of the State of California. The District and County Office of Education (COE) operates under a locally-elected seven-member Board form of government and provides educational services to grades K - 12 as mandated by the State and Federal agencies. The District and COE provide child care and elementary and secondary education in the City and County of San Francisco (County), State of California (State). The District also administers the COE fund (County School Service Fund). For financial reporting purposes, the District includes all funds, account groups, agencies, and authorities that are controlled by or dependent on the District's executive or legislative branches. Control by or dependence on the District was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the District, obligations of the District to finance any deficits that may occur, or receipt of significant subsidies from the District. The District and operates 75 elementary schools, 18 middle schools, 18 high schools, including three continuation schools and one independent study alternative school. The District sponsors ten Charter Schools. The District also maintains an adult education school and 28 Early Childhood Education Centers.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards and agencies that are not legally separate from the District. For San Francisco Unified School District, this includes general operations, food service and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Charter Schools The District has approved Charters for Creative Arts, Gateway, Leadership, Life Learning Academy, Five Keys, Cross Cultural Academy, KIPP Bayview, KIPP SF Bay Academy, City Arts and Technology High School and Metropolitan Arts and Technology High School, pursuant to Education Code Section 47605. The Charter Schools are sponsored by the District but operate independently. Their financial activity is not presented in the District's financial statements except for the pass-through of State aid and property tax revenues.

Joint Powers Agencies and Public Entity Risk Pools The District is a member of the School Project for Utility Rate Reduction (SPURR), the Northern California Regional Excess Liability Fund, (NCR) and the Schools Excess Liability Fund (SELF) joint powers authorities (JPA's). The District pays an annual contributions to NCR and SAFER for property and excess liability coverage and to SELF for additional excess liability coverage. The relationship between the District, and the JPA's is such that they are not component units of the District for financial reporting purposes.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary and fiduciary.

Governmental funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund The General fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

County School Service Special Revenue Fund The County School Service Special Revenue fund is used to account for resources committed to Special Education, other County schools, and the regional occupation program maintained by the District

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has no enterprise funds.

Internal Service Fund Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a Self Insurance Fund that is accounted for as an internal service fund.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into three classifications: pension trust funds, investment trust funds and agency fund.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Private-purpose trust funds are accounted for as a restricted component of the General Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District maintains the following two Agency funds:

Payroll Trust Agency Fund The Payroll Trust Agency Fund is used to account for assets held for employees for payroll withholding

Student Body Agency Fund The Student body Agency Fund is used to account for assets held for student organizations of schools in the District.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Governmental Fund Financial Statements Governmental Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements, prepared on the accrual basis of accounting using the economic resources measurement focus, and the governmental fund statements, prepared on the modified accrual basis of accounting and using the flow of current financial resources measurement focus.

Proprietary Funds Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met and recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2004 consist of deposits on hand with the County Treasurer and are stated at amortized cost at which approximates fair value. Fair value is provided by the County Treasurer.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Stores Inventory

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$25,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

When purchased, such assets are recorded as expenditures in the governmental funds but are capitalized and depreciated over their estimated service lives in the government-wide financial statements. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; equipment, 2 to 15 years.

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term obligations are not recognized as liabilities in governmental funds but are disclosed in the notes to financial statements. Debt service expenditures, including principal and interest on bonds, COP's and capital leases are recognized as expenditures in governmental funds when paid.

Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for FEMA funds received. In the Government-Wide Statement of Net Assets, this designation is reported as unrestricted reserves.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has \$397,483,796 in net assets as of June 30, 2004. Of that amount, \$392,965,443 represents the District's net fixed assets, net of related outstanding debt. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are Interfund Insurance Premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Francisco bills and collects the taxes in behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncement

For the fiscal year ended June 30, 2004, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations Are Component Units", an amendment of GASB Statement No. 14. This statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The adoption of this statement had no impact on the District's financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 2 – DEPOSITS AND INVESTMENTS

Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of monies with their county treasurer (Education Code Section 41001). In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000.

The District is also authorized to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Cash

Cash at June 30, 2004, is presented below and categorized separately to give an indication of the level of risk assessment with each deposit:

	Bank Balance - Category *			
	1	2	3	Total
Cash on hand and in banks	\$ 505,985	\$ -	\$ 2,148,767	\$ 2,654,752
Cash in revolving fund	4,500	-	-	4,500
Cash with fiscal agent	-	-	1,988,534	1,988,534
Total	<u>\$ 510,485</u>	<u>\$ -</u>	<u>\$ 4,137,301</u>	<u>\$ 4,647,786</u>

	Carrying Amount			
	Governmental	Proprietary	Fiduciary	Total
Cash on hand and in banks	\$ 45,055	\$ 998,657	\$ 1,543,779	\$ 2,587,491
Cash in revolving fund	4,500	-	-	4,500
Cash with fiscal agent	1,988,534	-	-	1,988,534
Total	<u>\$ 2,038,089</u>	<u>\$ 998,657</u>	<u>\$ 1,543,779</u>	<u>\$ 4,580,525</u>

*These categories are as follows:

- Category 1: Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3: Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Investments

Deposits with the County Treasurer are not categorized because they do not represent securities, which exist in physical or book entry form. The District reports the carrying value of these deposits at the lower of cost or market. Market adjustments to increase the carrying value to fair value are not made as the changes are not considered material. The fair values were provided by the County Treasurer.

The investments at June 30, 2004 had reported and fair values and were categorized as follows:

	Deposits with County Treasurer	
	Fair Value	Carrying Value
Uncategorized:		
Reported in Governmental Funds - Net	\$ 164,908,672	\$ 165,238,489
Reported in Proprietary Funds	9,776,203	9,795,755
Reported in Fiduciary Funds	8,209,265	8,225,684
Total Value	<u>\$ 182,894,140</u>	<u>\$ 183,259,928</u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	County School Service	Building	Nonmajor Funds	Total Governmental	Total Proprietary	Total Fiduciary
Federal Government							
Categorical aid	\$21,666,979	\$ 1,536,820	\$ -	\$ 2,065,796	\$25,269,595	\$ -	\$ -
State Government							
Categorical aid	7,845,066	3,078,252	-	590,802	11,514,120	-	-
Lottery	3,242,660	-	-	-	3,242,660	-	-
Other Local Sources	26,890,416	160,467	84,326	2,957,056	30,092,265	27,914	103,642
Total	<u>\$59,645,121</u>	<u>\$4,775,539</u>	<u>\$84,326</u>	<u>\$ 5,613,654</u>	<u>\$70,118,640</u>	<u>\$ 27,914</u>	<u>\$103,642</u>

Additional long term receivables include \$1,756,381 for a special education settlement with payments expected to be received annually over the next seven years.

In June 2004 the District entered into a settlement agreement with Strategic Resource Solutions Corp. (SRS) and other parties to settle claims arising from an Energy Services Agreement (ESA) between SRS and the District. The Settlement agreement calls for the District to receive \$32 million, net of fees paid to attorneys totaling \$11.1 million. \$16 million was received in the 2004 year with the remaining balance to be received in the 2005-06 fiscal year. The District initially accrued the full \$32 million in proceeds as an asset at June 30, 2004. The District's auditors have deferred the balance to be received in the 2005-06 fiscal year as the amounts do not meet the criteria for accrual under the modified accrual basis of accounting. The full \$32 million is recorded as a receivable in the entity-wide financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance June 30, 2003	Additions	Balance June 30, 2004
Governmental Activities			
Capital Assets being depreciated:			
Buildings and Improvements	\$ 440,580,796	\$ 24,368,521	\$ 464,949,317
Furniture and Equipment	47,357,779	-	47,357,779
Total Capital Assets being depreciated	<u>487,938,575</u>	<u>24,368,521</u>	<u>512,307,096</u>
Less Accumulated Depreciation:			
Buildings and Improvements	75,108,822	11,245,718	86,354,540
Furniture and Equipment	11,552,968	3,228,220	14,781,188
Total Accumulated Depreciation	<u>86,661,790</u>	<u>14,473,938</u>	<u>101,135,728</u>
Governmental Activities Capital Assets, Net	<u>\$ 401,276,785</u>	<u>\$ 9,894,583</u>	<u>\$ 411,171,368</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivable/Payable (Due From/Due To)

Interfund receivable and payable balances at June 30, 2004, between major and nonmajor governmental funds are as follows:

		Due From			
		County School Service	Building	Internal Service	Total
Due To	General	\$ 3,129,050	\$ -	\$ -	\$ 3,129,050
	Building	-	-	10,000,000	10,000,000
	Nonmajor governmental	-	800,000	-	800,000
	Total	<u>\$ 3,129,050</u>	<u>\$ 800,000</u>	<u>\$ 10,000,000</u>	<u>\$ 13,929,050</u>

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Interfund transfers for the year ended June 30, 2004, consisted of the following:

The General fund transferred to County School Service fund to cover the deficit fund balance.	\$ 991,551
The General fund transferred to Cafeteria fund to cover the deficit fund balance.	753,129
The General Fund transferred to the Child Development Fund to cover the deficit fund balance.	4,222,808
The General fund transferred to Special Reserve-Capital Outlay fund for the energy retrofit capital lease payment.	2,322,992
The General fund transferred to Debt Service fund for COP principal and interest payments.	<u>3,575,548</u>
Total	<u><u>\$ 11,866,028</u></u>

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2004, consisted of the following:

	County School Services	Building	Nonmajor Funds	Total Governmental	Total Proprietary	Total Fiduciary
Vendor payables	\$ 10,155,803	\$ 5,045,520	\$ 3,655,838	\$ 2,793,815	\$ 21,650,976	\$ 137,743
State apportionment	635,467	3,413,495	-	952,265	5,001,227	-
Salaries and benefits	-	-	-	-	-	8,312,907
Excess ERAF tax	-	17,070,974	-	-	17,070,974	-
Due to student group	-	-	-	-	-	1,543,779
Claim liabilities	-	-	-	-	30,678,000	-
Total	<u>\$ 10,791,270</u>	<u>\$ 25,529,989</u>	<u>\$ 3,655,838</u>	<u>\$ 3,746,080</u>	<u>\$ 43,723,177</u>	<u>\$ 30,815,743</u>
					<u>\$ 9,856,686</u>	

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2004, consists of the following:

	County School			Nonmajor Funds	Total
	General	Service	Building		
Federal financial assistance	\$ 11,501,281	\$ 74,886	\$ -	\$ 34,783	\$ 11,610,950
State categorical aid	5,724,244	22,120	-	195,281	5,941,645
School facilities apportionment	-	-	-	18,785,800	18,785,800
Other local	475,518	-	1,500,000	2,256	1,977,774
Total	<u>\$ 17,701,043</u>	<u>\$ 97,006</u>	<u>\$ 1,500,000</u>	<u>\$ 19,018,120</u>	<u>\$ 38,316,169</u>

NOTE 8 – LONG-TERM LIABILITIES

Long-Term Debt Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance			Balance June 30, 2004	Due in one year
	July 1, 2003	Additions	Deductions		
State school building loans	\$ 443,361	\$ 14,180	\$ 172,338	\$ 285,203	\$ 129,940
Certificates of participation	21,305,000	-	2,420,000	18,885,000	1,305,000
Accumulated vacation - net	5,315,028	1,002,679	-	6,317,707	6,317,707
Capital leases	33,043,735	-	1,029,573	32,014,162	470,894
Revenue limit deficit	-	10,051,477	-	10,051,477	-
	<u>\$ 60,107,124</u>	<u>\$ 11,068,336</u>	<u>\$ 3,621,911</u>	<u>\$ 67,553,549</u>	<u>\$ 8,223,541</u>

State and Public School Building Loans

The outstanding State School Building Loans are as follows:

Year Disbursed	Interest Rate	Loans		Redeemed	Loans Outstanding June 30, 2004
		Outstanding July 1, 2003	Interest		
Various	4.8-5.6%	<u>\$ 443,361</u>	<u>\$ 14,180</u>	<u>\$ 172,338</u>	<u>\$ 285,203</u>

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code. Annual repayment is determined by the State Controller in accordance with Section 16214 of the Education Code

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Certificates of Participation

In September 1992, the District issued certificates of participation in the amount of \$13,430,000 with interest rates ranging from 4.5 to 5.7 percent to advance refund 1987 Certificates of Participation which were issued to evidence lease payments for construction, remodeling, and improvement of facilities. As a result, the 1987 refunded bonds were considered to be defeased and the liability has been removed from the long-term obligations. At June 30 2004, the principal balance outstanding on the 1992 certificates of participation was paid off.

In May 1996, the District issued \$5,750,000 in Refunding Certificates of Participation with interest rates ranging from 4 to 5.5 percent to advance refund \$4,480,000 of outstanding 1989 Lease Revenue Bonds with an average interest rate of 6.5 percent. As a result, the 1989 bonds are considered to be defeased and the liability has been removed from the long-term obligations. At June 30, 2004, the principal balance outstanding on the 1996 certificates of participation was \$2,550,000.

In August 1998, the District issued \$4,435,000 in Certificates of Participation for Capital Improvement Financing Projects. The debt represents a portion of a pooling arrangement, in which the total debt is \$40,590,000. The interest rate is adjustable, with a maximum of 12 percent. At June 30, 2004, the principal balance outstanding for the District's portion was \$3,300,000.

In January 1999, the District issued \$14,045,000 in Certificates of Participation to finance the District's acquisition and improvement of a new administrative building. Interest rates range from 3.4 to 4.15 percent. At June 30, 2004, the principal balance outstanding was \$13,035,000.

The Certificates of Participation mature through 2031 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2005	\$ 1,305,000	\$ 845,392	\$ 2,150,392
2006	560,000	690,675	1,250,675
2007	1,005,000	710,857	1,715,857
2008	1,050,000	670,990	1,720,990
2009	1,575,000	641,703	2,216,703
2010-2014	3,675,000	2,614,284	6,289,284
2015-2019	2,305,000	2,043,571	4,348,571
2020-2024	2,910,000	1,276,900	4,186,900
2025-2029	3,660,000	650,037	4,310,037
2030-2031	840,000	19,950	859,950
Total	<u>\$ 18,885,000</u>	<u>\$ 10,164,359</u>	<u>\$ 29,049,359</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Accumulated Unpaid Employee Vacation

Full-time District employees are entitled to 10-25 vacation days a year, depending upon length of service, for which up to 30 working days in excess of the employee's annual vacation award may be carried over to the next year.

Additions to vested compensated absences reflect net changes during the year ended June 30, 2004. Also, the City and County of San Francisco Charter provisions allow classified employees to accumulate up to 130 working days of sick leave. Certified employees, under State law, are allowed to accumulate unlimited days of sick leave. Upon normal retirement, the District will redeem 100 percent of the sick leave accrued by classified personnel prior to December 5, 1978, and no sick leave accrued after December 5, 1978. No sick leave amounts are payable to certificated personnel upon normal retirement, or to employees who terminate for any reason prior to retirement.

Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$38,603,559 corresponding accumulated depreciation of \$8,101,687 at June 30, 2004. The District's liability on lease agreements with options to purchase are summarized below:

	Energy Retrofit	AT&T modular	BA Equipment	Total
Balance, Beginning of Year	\$ 57,867,070	\$ 447,098	\$ 227,924	\$ 58,542,092
Payments	2,381,944	447,098	227,924	3,056,966
Balance, End of Year	<u>\$ 55,485,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,485,126</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2005	\$ 2,453,402
2006	2,527,004
2007	2,602,816
2008	2,680,900
2009	2,761,326
2010-2014	15,100,066
2015-2019	17,505,114
2020-2024	9,854,498
Total	<u>55,485,126</u>
Less: Amount Representing Interest	23,470,964
Present Value of Minimum Lease Payments	<u>\$ 32,014,162</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

General Obligation Bonds Issued by the City and County of San Francisco

On June 3, 1997, the voters of San Francisco authorized a separate issuance of up to \$140,000,000 in general obligation bonds, of which \$90,000,000 is to be directed to the District for the replacement of obsolete structures with new safer buildings, to install computer technology infrastructure and upgrade electrical systems, and to modernize all science laboratories. As of June 30, 2004, the District has received the amount in full. The bonds are an obligation of the City and County of San Francisco and, as such, are not recorded as a liability of the District.

Revenue Limit Deficit

Due to a change in the way the State calculated the revenue limit for the 2003-04 fiscal year, the District recorded negative State aid in the amount of \$10,051,477. This negative amount is normally considered to be a current liability as the District does owe the money back to the State. In view of their current financial condition, the District met with the State and the two parties agreed to a repayment plan that will allow the District to repay this obligation over the next ten years. As such the negative State Aid amount of \$10,051,477 has been recorded as a component of long-term debt. The terms of the agreement call for the District to repay the balance, without interest, as follows:

Year Ending June 30,	Payment
2005	\$ -
2006	500,000
2007	750,000
2008	1,100,185
2009	1,100,185
2010-2014	5,500,925
2015	1,100,182
Total	<u>\$ 10,051,477</u>

Because the amount in question has been set up as a component of long-term debt, under the modified accrual basis of accounting, the deficit State aid liability is not considered a current liability, therefore it has no current year impact on the District's ending fund balance. The District will have to record a current liability in future years, for the payment due each year, and only then will the amount impact the ending balance of the general fund. The full amount of the liability is recorded in the Government-wide Financial Statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 9 – FUND BALANCES

Fund balances are composed of the following elements:

The following is a reconciliation of the difference between the undesignated general fund deficit noted above and the unrestricted net asset deficit as shown in the Statement of Net Assets:

	General	County School Service	Building	Nonmajor Funds	Total
Reserved					
Revolving cash	\$ 500	\$ -	\$ -	\$ 4,000	\$ 4,500
Stores inventory	540,758	-	-	104,601	645,359
Restricted programs	17,123,739	-	-	-	17,123,739
Total Reserved	<u>17,664,997</u>	<u>-</u>	<u>-</u>	<u>108,601</u>	<u>17,773,598</u>
Unreserved					
Designated					
FEMA reserve	10,324,000	-	-	-	10,324,000
Total Designated	<u>10,324,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,324,000</u>
Undesignated	<u>(7,350,306)</u>	<u>-</u>	<u>32,978,440</u>	<u>9,738,443</u>	<u>35,366,577</u>
Total Unreserved	<u>2,973,694</u>	<u>-</u>	<u>32,978,440</u>	<u>9,738,443</u>	<u>45,690,577</u>
Total	<u>\$ 20,638,691</u>	<u>\$ -</u>	<u>\$ 32,978,440</u>	<u>\$ 9,847,044</u>	<u>\$ 63,464,175</u>

Balance per above	\$ (7,350,306)
Add Back:	
FEMA Reserve	10,324,000
Special Ed Receivable	1,756,381
Deduct:	
Compensated Absences Liability	(6,317,707)
Revenue Limit Deficit	(10,051,477)
Deficit Self-Insurance Reserve	(10,012,969)
Accrued Interest in excess of Debt Service Fund Balance	<u>(1,303,006)</u>
Balance per Statement of Net Assets	<u><u>\$ (22,955,084)</u></u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 10 – PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are composed of the following elements:

	County			Nonmajor Governmental	Total Governmental
	General	School Service	Building		
Categorical programs	\$ (4,693,069)	\$ 390,871	\$ -	\$ -	\$ (4,302,198)
Other	2,805,728	-	800,000	(2,788,534)	817,194
Total	<u>\$ (1,887,341)</u>	<u>\$ 390,871</u>	<u>\$ 800,000</u>	<u>\$ (2,788,534)</u>	<u>\$ (3,485,004)</u>

Categorical Programs

The District completed an extensive review of all categorical program balances during the year ended June 30, 2004. All adjustments resulting from this review, consisting primarily of adjustments to recorded receivable and deferred revenue balances, were classified as prior period adjustments.

Other

The District determined, in the current year, that amounts held in the fiscal agency for certificates of participation, previously recorded in debt service fund, should be recorded in the General fund. The transferred amount was \$1,988,534.

The District determined in the current year, that an amount posted to KALW Radio station in the previous year, was actually a National Science Foundation Trust Fund grant. The amount has been reclassified as part of the restricted General fund. The correction amount was \$817,194.

In the fiscal year 2001-2002, the District received \$800,000 from City and County of San Francisco for funding of the Bessie C. School Project. The District determined in the current year that the amount previously recorded in Special Reserved-Capital fund, should be recorded in the Building fund.

NOTE 11 – POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 50 with at least 20 years of service, or attaining the age of 60 with at least 10 years of service, and for all certificated employees participating in STRS (hired as of July 1, 1972 and later), after attaining the age of 55 with at least 5 years of service. Currently, approximately 4,200 employees meet those eligibility requirements. The District pays an equivalent active employee rate for each retiree and the retiree pays the difference between the District's active employee rate and the retiree's actual individual premium cost and the cost of any dependents. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as retirees premiums are paid.